



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

~~090303~~

B-118638

4-10-74

B-118638

APR 10 1974

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations,

The Honorable Thomas M. Rees
House of Representatives

RELEASED 090303

Dear Mr. Rees:

Your January 21, 1974, letter requested us to verify or analyze the data in the District of Columbia's November 19, 1973, report to you on the District's Police and Firemen Retirement and Relief System. Because considerable time would be required to verify or analyze all the data, it was agreed that we would limit our review to the items included in our March 4, 1974, letter to you. Also, we would not review each item in detail.

The data was generally accurate, and the actuarial assumptions and calculations used in projecting the cost of the retirement system were reasonable.

Our comments on these and other areas reviewed are presented in the order listed in our March 4 letter.

BACKGROUND

The District's police and firemen retirement and relief fund was established by the act of September 1, 1916 (39 Stat. 718). This act provided optional (longevity) and disability retirement benefits to District police and firemen, and later acts added the U.S. Park Police, White House police, and Secret Service personnel who protect the President.

The 1916 act created the Police and Firemen's Retiring and Relief Board, composed of the corporation counsel and one member from the police and fire departments. The Board was to make the determinations on retirement benefits for police and firemen and relief benefits for their survivors. The act stated that the Board of Police and Fire Surgeons had to certify in writing to the retirement board that members applying for disability retirement benefits were disabled. The act authorized the Commissioners of the District Government to change the composition of the retirement board from time to time at their discretion.

~~906754~~

090303

In 1968 the Commissioner of the District of Columbia changed the composition of the retirement board: the District Personnel Officer (Chairman), the Director of Public Health (Vice-Chairman), the Corporation Counsel, the Chief of Police, and the Fire Chief. Members of the U.S. Park Police, White House police, and Secret Service were authorized to sit on the board on cases involving their organizations. The functions and responsibilities of the board remained about the same.

In 1970 Public Law 91-509 (84 Stat. 1136) provided that individuals could receive the optional retirement benefits after 20 years of service, regardless of age. Before 1970 they had to be 50 years old and complete 20 years of service. The 1970 act increased maximum optional annuity benefits from 70 percent to 80 percent and disability annuities remained at 70 percent of the individual's salary at time of retirement. Annuities for disabled retirees were to cease if their incomes from wages and self employment for 2 consecutive calendar years exceeded 80 percent of the current salary rate of the positions held at dates of retirement. Disability annuities are tax free. The Commissioner transferred disability certification authority from the surgeons' board to the retirement board, although the surgeons' board continued to furnish medical data on retirees to the retirement board.

In 1972 Public Law 92-410 (D.C. Code 4-533) provided that disabled retirees, regardless of age, employed on or after May 14, 1972, undergo medical examinations. To determine continued eligibility for annuities, retirement board procedures under an earlier act also required disabled retirees to take medical examinations but only if they were under 50 years of age.

The Office of Debt Analysis, Department of the Treasury, provides the actuarial services and certain payment verification services for the District's Police and Firemen Retirement and Relief System. At the District's request, that office made an actuarial valuation of the retirement system and in April 1973 reported to the District on its findings.

The report was the basis for some of the data shown in the District's November 19, 1973, study of the Police and Firemen Retirement and Relief System.

REASONABLENESS OF SUPPORTING DATA
SHOWING DECREASING TREND OF DISABLED RETIREES

We agree with the District that the percentage of disability retirements to total retirements generally has been decreasing

since 1969, the peak year. Retirement authorizations and payroll records support the data the District provided showing the decreasing trend. However, continuation of this trend is uncertain. The following table shows the number of optional and disability retirements and the percentage of disability retirements to total retirements for 1969 through 1973.

Calendar year	Retirements			Percentage of disability retirements to total retirements
	Optional	Disability	Total	
1969	4	244	248	98
1970	5	182	187	97
1971	49	196	245	80
1972	33	140	173	81
1973	81	117	198	59

District officials advised us that the reversal of the upward trend in disability retirements could be attributed to the elimination of the 50-year age requirement and increased annuity benefits for optional retirements.

ACCURACY OF THE NUMBER OF RETIREES
FOR CALENDAR YEAR 1972

The number of 190 retirees for calendar year 1972 was compiled by the District's Personnel Office. Our examination of the retirement authorizations showed that the total should be 173. The difference of 17 was caused by the District's including individuals who retired between February 1972 and January 1973 instead of for the 12 months ended December 31, 1972. Because records were not readily available and your need for a timely response, we did not verify the number of retirees on the rolls as of December 31, 1972, receiving annuity payments.

NUMBER OF RETIREES UNDER AGE 50
PROMOTED SHORTLY BEFORE RETIREMENT

Our review of 20 randomly selected retirees paid during 1972 showed that most of the retirees under age 50 received their last promotions 3 or more years before retirement. The following table shows the time between dates of last promotion and dates of retirement for the 20 randomly selected retirees paid in 1972.

	Years				Over 10
	Total	0 to 2	3 to 4	5 to 10	
Number of retirees	20	3	4	6	7

REASONABLENESS OF PROCEDURES FOR
VERIFYING INCOME OF RETIREES

The District did not have procedures for verifying the reported income earned, if any, by disabled retirees.

Disabled retirees under age 50 are required to report income earned each year to enable the retirement board to determine retirees' continued eligibility for annuities. If they earn more than 80 percent of the current salaries of the positions they held at time of retirement for 2 consecutive calendar years, their annuities cease.

The District's Office of Municipal Audit and Inspection (formerly Internal Audit Office) examined the eligibility of employed annuitants in 1965. That examination consisted of a limited survey of income earned by retired police and firemen employed by the District Government. The auditors reported that no procedures had been established for routinely identifying retirees who had exceeded the legal income limitation. The auditors' survey involving 13 retirees identified 4 who had exceeded the income limitation in 1 calendar year.

In the next calendar year, three of the retirees took leave without pay and therefore their earnings did not exceed the legal limit and the other retiree earned less than the maximum allowable. Despite observed procedural weaknesses, the report contained no recommendations.

An official of the Office of Municipal Audits said no audits had been made since 1965 and they had no plans to make future audits.

We verified that 23 randomly selected retirees on the rolls in calendar years 1971 and 1972 had filed income reports. Eighteen reported earned income and five did not. Income reported did not exceed the legal limitation. In accordance with the understanding with your office, we did not verify the accuracy of the retirees' reports.

To insure that income limitation provisions of the law are complied with and to avoid possible erroneous annuity payments, the District should establish procedures for insuring compliance, including periodic internal audits.

MEDICAL EXAMINATIONS

The law (D.C. Code 4-530) provides that, if disabled retirees under 50 years of age recover from their disabilities, annuities cease 1 year from the dates of the medical examinations. The retirement board requires examinations of disabled retirees under 50 years of age every 2 years.

Public Law 92-410 (D.C. Code 4-533) provides that disabled retirees regardless of age employed on or after May 14, 1972, undergo medical examinations. However, it is silent concerning what action should be taken if retirees who are 50 years or older are determined to be no longer disabled.

The District stated that it does not have authority to remove such retirees from the rolls.

A District official told us that they plan to implement Public Law 92-410 by requiring employed retirees under 50 years of age to take the medical examinations before those over age 50, because only those retirees under age 50 found to be no longer disabled can be removed from the retirement rolls.

If it is desired that employed retirees age 50 or older who are medically fit be removed from the retirement rolls, we suggest that the law be changed to specifically provide the District with such authority.

In 1971, 114 police and firemen under 50 years of age were given disability retirements and therefore would be required to have medical examinations in 1973. However, 82 of these cases did not have medical examinations. A retirement board official said the retirement board requested the police and fire departments to curtail their notices to retirees for medical examinations because of the board's heavy workload during each weekly meeting.

Delays in examining disabled retirees may result in unnecessary costs to the Government, because medically ineligible retirees under age 50 and those reaching age 50 before their examinations remain on the retirement rolls.

REASONABLENESS OF THE ACTUARIAL ASSUMPTIONS AND CALCULATIONS

Attachment 2 of the District's study shows the projected year by year net cost, to the District, for disability retirements by amount and percent of payrolls. District attachment 4 compares

disability retirement benefits by years of service. The Office of Debt Analysis, Department of the Treasury, made these projections.

We reviewed the valuation report supporting the projections and discussed the procedures, controls, and actuarial techniques used with the official of the Office of Debt Analysis who prepared the schedules.

The projected costs and retirement benefits were based on sound actuarial techniques and controls. Although we did not analyze the supporting data in detail, we test checked some calculations and were satisfied as to the reasonableness of the system and procedures employed.

The cost projections made in District attachment 2 assume that there will be no salary increases for active employees and no cost-of-living increases for survivors. Projections were made to the year 2010.

We believe that it is extremely unlikely that there will be no salary or cost-of-living increases. Therefore, we believe that the "Net D.C. Dollar Cost" as shown in District attachment 2 is the lowest possible cost and may well understate the actual amounts that will be experienced. The amounts shown in the attachment as the "D.C. cost - percent of payroll" would also be understated if salaries increase. However, because inflation would cause both payroll and benefit costs to rise, the percent of higher benefits to higher payrolls would be more stable than the net cost to the District. Consequently, it is our view that the District's cost of disability retirements expressed as a percent of payroll will remain more constant and more reliance should be placed on these percentages.

The data in District attachment 4 concerning the projected disability retirements after 5, 10, and 15 years of service is reasonable.

Cost of disability and optional retirements

The projected costs of retirements after 20 and 25 years of service was prepared for us by the Office of Debt Analysis and is included as an enclosure to this report. The data is reasonable.

However, in developing the projected costs of optional retirements, the Office of Debt Analysis noted that the cost of annuity payments to survivors of officers with 20 years of service was understated. The projected annuity payments to survivors of officers after 20 years of service (as shown in District attachment 4) were increased as shown by the enclosure to this report.

ACCURACY OF THE SCHEDULE COMPARING DISABILITY
RETIREMENTS--DISTRICT AND OTHER CITIES

The District's study includes a schedule (attachment 11) which compares the percent of disability retirements, by type, to total retirements for the District and other cities. The data is not representative and cannot be used for comparison.

Information in the District's study concerning other cities was obtained from unpublished data compiled by the International City Management Association. Data concerning the District was obtained from District records.

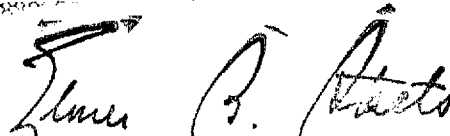
An Association official said that, because of the low response by the reporting cities, the percentage of disability retirements to total retirements for the other cities was not representative and that the information was not included in the Association's published report.

- - - -

Due to time limitations we did not obtain formal comments from the District, although we did discuss the matters in the report with District officials.

We will not distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States

Enclosure

D.C. POLICE AND FIREMEN
RETIREMENT AND RELIEF SYSTEM

Optional and disability retirement benefits for typical cases

	<u>Private</u>	<u>Sergeant</u>	<u>Lieutenant</u>	<u>Captain</u>
	<u>(thousands)</u>			
Optional after 20 years' service:				
Final salary	\$ 14.4	\$ 17.0	\$ 18.8	\$ 20.5
Annuity rate	7.2	8.5	9.4	10.2
Projected annuity payments	186.3	220.0	243.3	264.0
Projected survivor payments	59.4	70.0	77.7	84.3
Total, all payments	245.7	290.0	321.0	348.3
Optional after 25 years' service:				
Final salary	\$ 14.4	\$ 17.0	\$ 18.8	\$ 21.4
Annuity rate	9.4	11.1	12.2	13.9
Projected annuity payments	212.9	251.2	278.5	316.3
Projected survivor payments	55.8	65.8	73.0	83.0
Total, all payments	268.7	317.0	351.5	399.3
Disability after 20 years' service:				
Final salary	\$ 14.4	\$ 17.0	\$ 18.8	\$ 20.5
Annuity rate	9.8	11.5	12.7	13.9
Projected annuity payments	248.6	293.1	325.2	353.2
Projected survivor payments	60.1	70.9	78.7	85.4
Total, all payments	308.7	364.0	403.9	438.6
Disability after 25 years' service:				
Final salary	\$ 14.4	\$ 17.0	\$ 18.8	\$ 21.4
Annuity rate	9.8	11.5	12.7	14.5
Projected annuity payments	218.4	257.5	285.8	324.6
Projected survivor payments	56.9	67.0	74.4	84.5
Total, all payments	275.3	324.5	360.2	409.1